

**REPORT OF THE AUDIT OF THE  
FORMER MARTIN COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**January 5, 2003**



**CRIT LUALLEN  
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**CRIT LUALLEN**  
**Auditor of Public Accounts**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Kelly Callahan, Martin County Judge/Executive  
Honorable Darriel Young, Former Martin County Sheriff  
Honorable Garmon Preece, Martin County Sheriff  
Members of the Martin County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, Certified Public Accountants, presents the former Martin County Sheriff's Settlement - 2002 Taxes as of January 5, 2003.

We engaged Morgan-Franklin, LLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Morgan-Franklin, LLC, evaluated the Martin County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
FORMER MARTIN COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**January 5, 2003**

Morgan-Franklin, LLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for the former Martin County Sheriff as of January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The former Sheriff collected taxes of \$2,704,468 for the districts for 2002 taxes, retaining commissions of \$80,607 to operate the Sheriff's office. The former Sheriff distributed taxes of \$2,578,221 to the districts for 2002 Taxes. Taxes of \$1,003 are due to the districts from the former Sheriff and refunds of \$100 are due to the former Sheriff from the taxing districts.

**Report Comments:**

- The Former Sheriff Should Have Paid Interest To The School Monthly
- The Former Sheriff Should Have Paid Amounts Owed To Taxpayers For Refunds
- The Former Sheriff Should Have Obtained A County Revenue Bond
- The Sheriff Should Eliminate The Deficit Of \$643 In The Tax Account
- The Former Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral And Should Have Entered Into A Written Agreement To Protect Deposits
- The Former Sheriff Should Not Have Transferred Money From The Tax Account To The Fee Account Other Than For Commissions Earned
- The Former Sheriff Should Not Have Received Profit From Use Of Public Funds Or Commingled Public And Private Funds
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

**Deposits:**

The former Sheriff's deposits were not properly insured and collateralized by bank securities or bonds. There was no written security agreement.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
SHERIFF'S SETTLEMENT - 2002 TAXES .....	3
NOTES TO FINANCIAL STATEMENTS .....	5
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS .....	11
COMMENTS AND RECOMMENDATIONS .....	15
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	21





**Morgan-Franklin, LLC**  
**P.O. Box 428**  
**513 Main Street**  
**West Liberty, Kentucky 41472**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
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Finance and Administration Cabinet  
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Members of the Martin County Fiscal Court

Independent Auditor's Report

We have audited the former Martin County Sheriff's Settlement - 2002 Taxes as of January 5, 2003. This tax settlement is the responsibility of the former Martin County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Martin County Sheriff's taxes charged, credited, and paid as of January 5, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 23, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Kelly Callaham, Martin County Judge/Executive  
Honorable Darriel Young, Former Martin County Sheriff  
Honorable Garmon Preece, Martin County Sheriff  
Members of the Martin County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff Should Have Paid Interest To The School Monthly
- The Former Sheriff Should Have Paid Amounts Owed To Taxpayers For Refunds
- The Former Sheriff Should Have Obtained A County Revenue Bond
- The Sheriff Should Eliminate The Deficit Of \$643 In The Tax Account
- The Former Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral And Should Have Entered Into A Written Agreement To Protect Deposits
- The Former Sheriff Should Not Have Transferred Money From The Tax Account To The Fee Account Other Than For Commissions Earned
- The Former Sheriff Should Not Have Received Profit From Use Of Public Funds Or Commingled Public And Private Funds
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

Audit fieldwork completed -  
September 23, 2003

MARTIN COUNTY  
DARRIEL YOUNG, FORMER COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

January 5, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 175,425	\$ 208,343	\$ 707,802	\$ 205,934
Tangible Personal Property	99,655	127,352	384,516	364,965
Intangible Personal Property				194,696
Increases Through Exonerations	30	33	121	35
Franchise Corporation	43,511	52,766	175,553	
Additional Billings	458	513	1,884	539
Oil and Gas Property Taxes	111,000	123,548	447,859	130,304
Adjusted to Sheriff's Receipt	(21)	1,336	4,805	1,457
Gross Chargeable to Sheriff	<u>\$ 430,058</u>	<u>\$ 513,891</u>	<u>\$ 1,722,540</u>	<u>\$ 897,930</u>
<u>Credits</u>				
Exonerations	\$ 3,052	\$ 3,484	\$ 12,315	\$ 66,161
Discounts	5,856	7,033	23,394	13,845
Transfer of Bills to Incoming Sheriff				
Real Estate	50,894	56,647	205,346	59,582
Tangible Personal Property	3,053	6,881	11,926	27,295
Intangible Personal Property				49
Oil/Gas Property	6,277	6,987	25,327	7,369
Uncollected Franchise	<u>42,384</u>	<u>51,446</u>	<u>163,347</u>	
Total Credits	<u>\$ 111,516</u>	<u>\$ 132,478</u>	<u>\$ 441,655</u>	<u>\$ 174,301</u>
Taxes Collected	\$ 318,542	\$ 381,413	\$ 1,280,885	\$ 723,629
Less: Commissions *	<u>13,826</u>	<u>16,210</u>	<u>19,529</u>	<u>31,042</u>
Taxes Due	\$ 304,716	\$ 365,203	\$ 1,261,356	\$ 692,587
Taxes Paid	300,417	360,202	1,264,228	674,237
Refund of School Commissions			(20,863)	
Refunds (Current and Prior Year)	30	34	123	35
Unpaid Refunds	<u>4,317</u>	<u>5,019</u>	<u>16,865</u>	<u>18,315</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (48)</u>	<u>\$ (52)</u>	<u>\$ 1,003</u>	<u>\$ 0</u>

\* and \*\* See Page 4.

The accompanying notes are an integral part of this financial statement.

MARTIN COUNTY  
DARRIEL YOUNG, FORMER COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES  
January 5, 2003  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	1,413,583
4% on	\$	12,645
1.5% on	\$	1,268,240

\*\* Special Taxing Districts:

Library District	\$	437
Health District		(478)
Extension District		<u>(11)</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>(52)</u></u>

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENTS

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 18, 2003 the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,316,667 of public funds uninsured and unsecured. In addition, the former Sheriff did not have a written agreement with the depository institution securing the former Sheriff's interest in the collateral.

MARTIN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 January 5, 2003  
 (Continued)

Note 2. Deposits (Continued)

The former Martin County Sheriff's deposits are categorized below to give an indication of the level of risk assumed by the former Sheriff as of December 18, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by the county official's agent in the county official's name	1,092,906
Uncollateralized and uninsured	<u>1,316,667</u>
Total	<u><u>\$ 2,509,573</u></u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 18, 2002 through January 5, 2003, which was when the outgoing Sheriff left office.

B. Gas Taxes

The real property tax assessments were levied as of January 1, 2002. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 21, 2002 through January 5, 2003, which was when the outgoing Sheriff left office.

Note 4. Interest Income

The former Martin County Sheriff earned \$6,068 as interest income on 2002 taxes. As of September 23, 2003, the former Sheriff owes \$503 in interest to the school district and \$932 in interest to his fee account.

Note 5. Deficit Balance

Based on available records, there was a deficit of \$643 in the former Sheriff's tax account. This resulted primarily from undeposited tax receipts. We recommend the former Sheriff deposit \$643 from personal funds into the tax account to eliminate this deficit.

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
January 5, 2003  
(Continued)

Note 6. Unpaid Refunds

Based on available records, \$44,516 of refunds are due taxpayers. Of this amount, \$42,262 is due to the Martin County Coal Corporation (MCCC). MCCC paid their bill including penalties and interest. After payment of the bill the MCCC requested a waiver of penalties. According to the Kentucky Revenue Cabinet this waiver was granted. However, as of the date of our audit, the MCCC had not been refunded the penalties that were waved by the Kentucky Revenue Cabinet.

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SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS



MARTIN COUNTY  
DARRIEL YOUNG, FORMER COUNTY SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

January 5, 2003

Assets

Cash in Bank (All Tax Accounts)		\$	1,510,131
Receivables Collected			101,420
Uncollected Receivables			
Monies transferred to the fee account which were not repaid			45,983
Uncollected Receivables - Taxing Districts			
County	\$	48	
Health		478	
Extension		11	537
			<hr/>
Total Assets			1,658,071

Liabilities

Paid Obligations-			
Outstanding Checks	\$	1,284,088	
Obligations paid after January 5, 2003		327,235	
			<hr/>
Total Paid Obligations			1,611,323
Unpaid Obligations-			
Taxing Districts-			
School	\$	1,003	
Library		437	
Interest Due Fee Account		932	
Interest Due School		503	
Refunds Due Taxpayers		44,516	
			<hr/>
Total Unpaid Obligations			47,391
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Total Liabilities		\$	1,658,714
			<hr/>
Total Fund Deficit as of January 5, 2003		\$	(643)
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## COMMENTS AND RECOMMENDATIONS



MARTIN COUNTY  
DARRIEL YOUNG, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

January 5, 2003

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Have Paid Interest To The School Monthly

According to KRS 134.140, the sheriff shall pay to the board of education that part of his investment earnings for the month, which is attributable to the investment of school taxes. The former sheriff earned \$1,435 in interest on the regular tax account that has not been distributed and should be transferred to the school and fee account. The school is due \$503 and the fee account is due \$932 in interest.

*Former Sheriff's Response:*

OK.

The Former Sheriff Should Have Paid Amounts Owed To Taxpayers For Refunds

Based on available records, \$44,516 of refunds are due taxpayers. Of this amount, \$42,262 is due to the Martin County Coal Corporation (MCCC). MCCC paid their bill including penalties and interest. After payment of the bill the MCCC requested a waiver of penalties. According to the Kentucky Revenue Cabinet this waiver was granted. However, as of the date of our audit, the MCCC had not been refunded the penalties that were waived by the Kentucky Revenue Cabinet. We recommend that these refunds be paid to the taxpayers.

*Former Sheriff's Response:*

*I have discussed this, but I do not agree.*

Auditor's Reply:

It is clear by analyzing the former Sheriff's records that after the penalties and interest were collected and remitted to the districts that the former Sheriff reduced a later month's distributions to the districts in order to return the taxpayer's refund of penalties and interest. However, the taxpayer never received this refund. It would be inappropriate to penalize the districts by reducing this amount from some future month's distribution a second time. Based on the records provided by the former Sheriff, the money was available to refund the taxpayers, however, it was used to operate the former Sheriff's office.

The Former Sheriff Should Have Obtained A County Revenue Bond

According to KRS 134.250, this bond shall be approved by order of the Fiscal Court, and when approved it shall be recorded by the Fiscal Court in its minutes and filed by the Fiscal Court with the County Clerk. We recommend that the former Sheriff obtain a County Revenue Bond sufficient to protect the county from potential loss. This was also addressed last year in the exit conference and it was not corrected.

*Former Sheriff's Response:*

OK.

MARTIN COUNTY  
DARRIEL YOUNG, FORMER MARTIN COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
January 5, 2003  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Former Sheriff Should Eliminate The Deficit Of \$643 In The Tax Account

Based on available records, there was a deficit of \$643 in the former Sheriff's tax account. This resulted primarily from undeposited tax receipts. We recommend the former Sheriff deposit \$643 from personal funds into the tax account to eliminate this deficit.

*Former Sheriff's Response:*

OK.

The Former Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$1,316,667 And Should Have Entered Into A Written Agreement To Protect Deposits

On December 18, 2003, \$1,316,667 of the former Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The former Sheriff should have required the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff's Office enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Former Sheriff's Response:*

OK.

The Former Sheriff Should Not Have Transferred Money From The Tax Account To The Fee Account Other Than For Commissions Earned

Pursuant to KRS 134.170 (3), other than for investments and expenditures permitted by KRS 134.140, the sheriff shall not apply or use any money received by him for any purpose other than that for which the money was paid or collected. Revenues collected in the tax account are supposed to be distributed to the districts or refunded to taxpayers within a timely manner. These revenues should not be transferred to the fee account to be used for operating purposes. The former Sheriff transferred \$194,951 from his 2002 tax account to his 2002 fee account for operating purposes. The former Sheriff transferred \$148,968 of these funds back to the 2002 tax account from the 2002 fee account. These transactions left a receivable from the fee account of \$45,983. We recommend that the former Sheriff collect this receivable from the 2002 fee account.

*Former Sheriff's Response:*

I do not agree.



MARTIN COUNTY  
DARRIEL YOUNG, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
January 5, 2003  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Former Sheriff Should Not Have Received Profit From Use Of Public Funds Or Commingled Public And Private Funds

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Per KRS 64.850, no county official may deposit public funds with individuals or private funds in any bank or other depository or withdraw public funds for any purpose other than that for which they were received and deposited. Furthermore, per KRS 61.190, no public officer shall receive, directly or indirectly any interest, profits, or perquisites arising from the use or loan of public funds in his hands, or to be raised through his agency. According to Lillie Young, office assistant and the former Sheriff's wife, subsequent to January 5, 2003, she transferred all monies from all accounts held in the former Sheriff's name into her personal savings account. As of January 5, 2003, the balance in all accounts held in the Sheriff's name was \$19,574. Mrs Young stated that she would contact the state to determine what to do with the remaining amounts. Upon a second confirmation of the account balances of the former Sheriff's bank accounts, we found that as of our audit report date all bank balances were \$0 except for the 2002 fee and tax settlement accounts which had balances totaling \$8,675. We recommend that the former Sheriff return all public funds from his personal account to official operating accounts and refer to his prior audits to determine how to distribute these monies.

*Former Sheriff's Response:*

OK.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

During our audit we noted the former Sheriff's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could have adversely affected the former Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff's Office obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash periodically recounted and deposited by the Sheriff
- Periodic reconciliation of reports to source documents and receipts and disbursements ledgers by the Sheriff
- All disbursement checks are to be signed by two people and one must be the Sheriff
- All disbursements checks prepared by an employee are examined by the Sheriff for proper documentation
- The Sheriff mails disbursements
- The Sheriff or someone independent of the Sheriff's Office prepares bank reconciliations

*Former Sheriff's Response:*

OK.

MARTIN COUNTY  
DARRIEL YOUNG, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
January 5, 2003  
(Continued)

PRIOR YEAR:

- The Former Sheriff Should Have Obtained A County Revenue Bond
- The Former Sheriff Should Have Required the Depository Institution To Pledge or Provide Sufficient Collateral Of \$243,434 And Should Have Entered Into A Written Agreement To Protect Deposits

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



**Morgan-Franklin, LLC**  
**Certified Public Accounts**  
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Members of the Martin County Fiscal Court

**Report On Compliance And On Internal Control**  
**Over Financial Reporting Based On An Audit Of The Financial**  
**Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Martin County Sheriff's Settlement - 2002 Taxes as of January 5, 2003, and have issued our report thereon dated September 23, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Martin County Sheriff's Settlement - 2002 Taxes as of January 5, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Paid Interest To The School Monthly
- The Former Sheriff Should Have Paid Amounts Owed To Taxpayers For Refunds
- The Former Sheriff Should Have Obtained A County Revenue Bond
- The Sheriff Should Eliminate The Deficit Of \$643 In The Tax Account
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- The Former Sheriff Should Not Have Received Profit From Use Of Public Funds Or Commingled Public And Private Funds

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Martin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

Audit fieldwork completed -  
September 23, 2003

